

2. (a) There are various types of unemployment. Explain how any *three* types of unemployment may cause a rise in the unemployment rate of an economy. [10 marks]

Answers should include:

- definition of unemployment
- an explanation of three of structural, frictional, seasonal, demand deficient (cyclical), real wage unemployment (classical)
- explanation of the term “unemployment rate” and how the three types of unemployment explained could increase the unemployment rate.

Answers may include:

- diagrammatic illustration of the above.

Examiners should be aware that candidates may take a different approach which if appropriate, should be rewarded.

- (b) Evaluate the view that the unemployment rate can be most effectively reduced through the use of measures designed to increase aggregate demand in an economy. [15 marks]

Answers may include:

- explanation of measures designed to increase AD in terms of fiscal and monetary policy
- use of lower interest rates to increase AD and to combat demand deficient unemployment
- use of higher government spending/lower taxation to increase AD and to combat demand deficient unemployment
- illustration of demand-side policies using AD/AS diagrams
- discussion of ineffectiveness of demand-side measures for structural, real wage, frictional and seasonal unemployment
- discussion of problems of demand-side measures, *e.g.* may lead to a rise in inflation, financing expansionary fiscal policy, time lags associated with monetary policy, *etc.*
- explanation of supply-side measures to deal with non-demand deficient unemployment
- discussion of problems of supply-side measures, *e.g.* it may lead to the exploitation of workers, the cost and effectiveness of government managed training, the time lags associated with the application of supply-side policies.

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Effective evaluation may be to:

- consider short-term versus long-term consequences
- examine the impact on different stakeholders
- discuss advantages and disadvantages
- prioritize the arguments.